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RUEHGV/USMISSION GENEVA PRIORITY 1936
RUCNDT/USMISSION USUN NEW YORK PRIORITY 5267

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SUBJECT: A BURMESE ROCK BECOMES A THAI RUBY

REF: BANGKOK 5927

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SUMMARY

1. (SBU) Visits to the major gem trading and polishing centers in Thailand reveal that most of the value of finished Burmese gems is added outside of Burma. The Chantaburi Gem and Jewelry Traders Association says its members get most of their raw stones from private smugglers in Thai border towns, not from the Burmese government controlled auctions in Rangoon. Raw stones at the border sell for as little as 35 cents per carat, while high quality finished rubies can sell for more than diamonds. There would be major technical challenges to determining the origin of finished gems. International gem trader associations have called for members to stop buying gems from the Burmese government, though there is no accompanying enforcement mechanism. Sanctions on Burmese rubies could have a dramatic effect on Thai gem traders and craftsmen. End summary.

2. (SBU) On December 12, econoff traveled to Chantaburi, a city in southeastern Thailand that is a world-renowned center

for cutting and polishing colored gemstones. While in Chantaburi, econoff met with Adisak Thawornviriyanan, President of the Chantaburi Gem and Jewelry Traders Association (CGJTA), Phuket Khunprapakorn, Secretary General of CGJTA, Somwang Kanyapreedakul, Secretary of the CGJTA, and several additional members of the board of directors of CGJTA. The CGJTA's perspective was largely similar to that of Bangkok-based Thai Gem and Jewelry Traders Association, reported reftel.

13. (U) Econoff later traveled to Mae Sai, the Thai border town that is a major source of Burmese rubies for the Chantaburi traders and separated from Burma by a shallow river that even shortly after the rainy season is only about 20 feet wide.

FROM MOGOK TO CHANTABURI VIA MAE SAI

14. (SBU) According to CGJTA, rubies enter Thailand from Burma via three means:

--Thai dealers purchasing from Myanmar Gem Enterprises (MGE) directly at the auction in Rangoon that is usually held at least twice a year. (Note. The GOB recently announced that they plan to hold another auction in January 2008. End note.)

--Thai dealers purchasing directly from individuals in Burma in places like Mandalay. These transactions are taxed by the GOB but, CGJTA says, traders usually lowball the declared value to avoid paying much tax.

--Small Burmese traders coming to Thailand to sell rough rubies to Thai dealers via the border towns of Mae Sai and

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Mae Sot. Rubies entering by this means are essentially smuggled, evading GOB taxes. The border town dealers in turn sell the rough rubies to Chantaburi traders, who then arrange for cutting and polishing before selling them onward to the large Bangkok dealers who market them overseas. According to CGJTA, Mae Sai is a much bigger source than Mae Sot.

15. (SBU) CGJTA estimates that the first and second means account for about 20 percent each. The third means makes up the remaining 60 percent. According to CGJTA, the declared value of rubies at the recent auction in Rangoon was approximately THB 100 million (about USD 3 million). Therefore, with the 10 percent tax assessed by the GOB, the ruby portion of the auction generated approximately USD 300,000 in direct revenue for the GOB. The CGJTA also said that the real money for the GOB at the auction comes from jade sold to China.

16. (SBU) In the past, according to CGJTA, up to 90 percent of the rubies in Chantaburi came from Burma. Over the past four or five years, the volume of rubies from Africa has increased and now accounts for 20-30 percent of the volume in Chantaburi. World-wide, CGJTA estimates, Burmese rubies account for about 40 percent of the volume of the ruby trade but, as they are generally of higher quality, perhaps 70 percent of the value.

17. (SBU) CGJTA said it is difficult to determine the origin of a ruby, especially after it is a finished product. Rubies from Vietnam and Burma, for example, look very similar. According to CGJTA, the cost of an accurate test of origin can be greater than the cost of the ruby itself. CGTJA explained that this would not entail a chemical test but rather a trained gemologist examining the stone under a microscope and comparing it with an extensive gem lab database. This is not something that is feasible to do at a border crossing, unless customs agents were trained gemologists with the right equipment and database to work from. If laws are passed against Burmese rubies, CGJTA officials said they would not be surprised if the number of

"Vietnamese" rubies increases in world markets.

¶8. (U) Along Mae Sai's Soi Ploi (gemstone alley) there were several simple wooden tables set up on the street with huge piles of rough rubies available for sale. Dealers said they sell most of their rubies to Chantaburi traders and estimate that every day THB 10 million (about USD 300,000) changes hands on Soi Ploi.

¶9. (SBU) One streetside dealer said he believes the auction in Rangoon accounts for a much higher volume than the border trade, contradicting the view of the CGJTA. He said the Chantaburi traders go to the Rangoon auction, where rubies are sold in big lots. Only big players can afford to buy big lots, which are sold for millions of baht. The auction separates high, medium, and low quality gems and then

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assembles them into lots. He also implied that the Burmese military skims off the higher quality rubies for the auction, leaving the smaller ones to make their way across the border.

¶10. (SBU) Soi Ploi dealers said that Burmese come to sell in Mae Sai every day, but the Soi Ploi dealers do not generally buy direct from the Burmese, implying another layer of middlemen.

¶11. (SBU) The visit to Mae Sai also shed some light on why gems, rather than jade, are smuggled by small traders. At a jewelry store econoff visited in Mae Sai there was a small cutting and polishing operation upstairs. The store manager, a Burmese who commutes every day from Tachilek across the border, showed econoff rough jade, which looks like an ordinary dull brown boulder. When asked how one can distinguish the jade from an ordinary rock, the manager explained that jade is much heavier and when chiseled down to the smooth green, the stone is cool to the touch, even in sweltering Thailand. Upon attempting to lift a small, about 18-inch long, rough jade stone, it was clear why it would be so difficult to smuggle across the river in your pocket.

EFFECTS OF A BAN ON THE RUBY TRADE

¶12. (SBU) The CGJTA is following closely the U.S. legislation banning the importation of Burmese gemstones and believes that if passed it would especially affect two groups: Burmese ruby mine workers and Thai gem craftsmen. CGJTA estimates there are 3000-4000 Thai working in Chantaburi whose livelihood is directly related to Burmese rubies.

¶13. (SBU) CGJTA said that if the U.S. and the EU ban importation of Burmese rubies, China and India will step in to buy. However, they added, the Chinese and Indians tend to buy the cheaper, lower quality rubies. The high value, high margin business is with the U.S. and the EU.

¶14. (SBU) Contrary to what we had been told elsewhere, one Mae Sai dealer said that African gemstones are higher quality than Vietnamese, primarily because the Vietnamese rubies are softer and can break during the heating process.

THE VALUE-ADDED CHAIN: A BURMESE ROCK BECOMES A THAI RUBY

¶15. (SBU) CGJTA emphasized that most of the value of Burma-origin rubies is added by Thai craftsmen who cook, cut, and polish the stones. CGJTA showed econoff piles of rubies at different stages of production to demonstrate the value added in Chantaburi. The rubies come into Chantaburi as rough stones that look like a pile of dark purple-brown pebbles that the average person would never guess has any value. Once cleaned and cooked, the rubies take on a

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brighter red hue. The rubies are then polished, cut, and polished again until they take on the dazzling "pigeon's blood" red for which they are famous. A 3 carat rough stone would generally end up as a 0.5 carat finished product due to the cutting and polishing process.

¶16. (SBU) Econoff observed polishing machines owned and operated by small producers. The machines were small and simple, indicating that the value-added in Burmese rubies by Thai craftsmen is skilled labor, not capital, intensive.

¶17. (SBU) On Soi Ploi in Mae Sai, econoff witnessed a large plastic bag of rough Burmese rubies trade hands for only THB 12 (35 cents) per carat. Soi Ploi dealers said the price can range from as little as THB 2 (6 cents) to THB 50 (USD 1.49) per carat, depending on size and quality, with the occasional sack of large high quality rubies going for as much as THB 5000 (USD 150) per carat. After cutting and polishing and with wholesale and retail mark-ups, high-quality finished rubies often sell for a price per carat equal to or greater than diamonds.

ASSOCIATION BOYCOTT OF GEMS FROM OFFICIAL BURMESE SOURCES

¶18. (U) CGJTA gave econoff copy of the statement from CIBJO (World Jewelry Confederation), of which they are a member. Begin text of statement.

CIBJO Statement on Burma and trading in Burmese gemstones.

CIBJO deplores the violent repression of individuals, human rights and democracy in Burma and fully supports the UN Human Rights Council Resolution S-5/1: "Situation of Human Rights in Myanmar" of October 2nd 2007. CIBJO also fully supports the UN Security Council statement of October 11th 2007.

CIBJO reminds its members of their commitments to abiding with the CIBJO Code of Ethics, with current particular regard to the situation in Burma.

CIBJO advises its member associations to urge their members to seek information from their suppliers as to whether gemstones have originated from Burma and to consider seriously refraining from purchasing any Burmese gemstones until such time as the United Nations indicate that the process of democratic reform has started in Burma.

CIBJO further advises its member associations to urge their members not to purchase gemstones directly from the Myanmar Junta Government.

CIBJO President's Council
October 17th 2007
Toronto, Canada. End text of statement.

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The CIBJO has no mechanism to enforce compliance with this "advice" however.

¶19. (SBU) CGJTA officials also made the point that a Kimberley Process for "blood rubies" may not be practical because unlike diamonds, ruby mines are very small and dispersed, so it is difficult to certify that the rubies are not from a government source.

COMMENT

¶20. (SBU) Thai gem associations have a clear self-interest in their description of how the industry operates. Moreover, similar information from street peddlers in Mae Sai is anecdotal at best. Nevertheless, estimates that over 90

percent of the retail value of Burmese rubies is added outside of Burma seem credible based on our observations. Therefore it seems likely that the greatest financial impact of sanctions on the ruby trade would be on private Thai gem craftsmen and traders in Thailand.

BOYCE